AR20

Simpsons

Simpsons, Limited 1977 Annual Report

Directors

Jack C. Barrow
Thomas J. Bell, *M.C.*
Betty Kennedy Burton
Edgar G. Burton
G. Allan Burton, *D.S.O., E.D., LL.D.*
Charles L. Gundy, *LL.D.*
Raymond Lavoie, *Appointed January, 1978*
Alfred Powis, *LL.D.*
Elmer L. Rounding, *Resigned January, 1978*
J. Michael G. Scott
Ian D. Sinclair, *Q.C., LL.D.*
Charles B. Stewart
James M. Tory, *Q.C.*
William P. Wilder
A. Ernest Wilkes

Officers

G. Allan Burton, *D.S.O., E.D., LL.D., Chairman of the Board and Chief Executive Officer*
Charles B. Stewart, *Deputy Chairman of the Board*
Edgar G. Burton, *President*
Charles L. Gundy, *LL.D., Vice-President*
James M. Tory, *Q.C., Vice-President*
Ronald J. Crichton, *Vice-President, Stores*
J. Richard Davidson, *Vice-President, Personnel*
Kenneth W. Kernaghan, *Q.C., Vice-President and Secretary*
Ian C. McSweeney, *Vice-President, Merchandising*
A. Ernest Wilkes, *Vice-President, Finance*
Ian M. Gibson, *Treasurer*
Ronald L. Radley, *Q.C., Assistant Secretary*

Head Office

The Simpson Tower,
401 Bay Street, Toronto, Ontario M5H 3K2

Transfer Agents

National Trust Company, Limited, *Toronto and Montreal*
Canada Permanent Trust Company,
Halifax, Winnipeg and Calgary
The Canada Trust Company, *Vancouver*

Registrars

The Royal Trust Company, *Toronto and Montreal*
Canada Permanent Trust Company,
Halifax, Winnipeg and Calgary
The Canada Trust Company, *Vancouver*

AR20

HEAD OFFICE

THE SIMPSON TOWER
401 Bay Street, Toronto, Canada
M5H 3K2

DEPARTMENT STORES

TORONTO AREA
Downtown
Yorkdale
Cedarbrae
Fairview
Sherway
Brampton
Scarborough
Richmond Hill

LONDON AREA
Downtown
White Oaks

KITCHENER
Fairview Park

MONTREAL AREA
Downtown
Fairview-Pointe Claire
Les Galeries d'Anjou
Le Carrefour Laval

HALIFAX AREA
Chebucto Road
Micmac-Dartmouth

REGINA
Downtown

OTTAWA
Downtown

WINDSOR
Devonshire Mall

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto and Montreal

CANADA PERMANENT TRUST COMPANY
Halifax, Winnipeg and Calgary

THE CANADA TRUST COMPANY
Vancouver

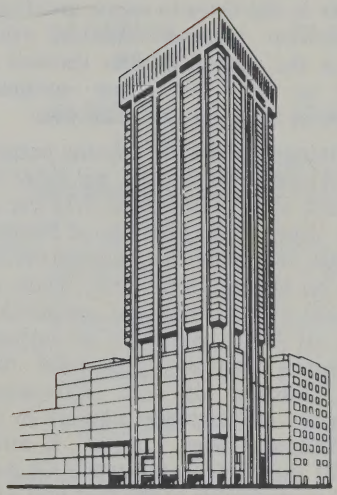
TRANSFER AGENTS

NATIONAL TRUST COMPANY, LIMITED
Toronto and Montreal

CANADA PERMANENT TRUST COMPANY
Halifax, Winnipeg and Calgary

THE CANADA TRUST COMPANY
Vancouver

Simpsons
105th YEAR



INTERIM
REPORT TO SHAREHOLDERS

FOR SIX MONTHS ENDED JULY 6, 1977

SIMPSONS, LIMITED

THE SIMPSON TOWER
TORONTO, CANADA
M5H 3K2

TO THE SHAREHOLDERS:

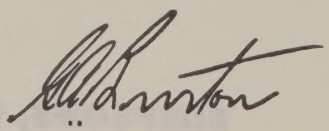
Sales for the six months ended July 6, 1977 were $275,866,000, an increase of 7% over the same period last year. The results for the second quarter were more disappointing than anticipated. The economic recession progressively eroded the real disposable income of consumers while unpredictable weather in late May and early June combined to produce country-wide the most unsatisfactory results for these months in recent years. Sales in the Ontario region and Halifax have been somewhat stronger than in other areas. Earnings in the second quarter showed a gain of $266,000 or 0.6¢ per share compared with $3,791,000 or 8.1¢ per share last year.

Net earnings for the six months period showed a loss of $1,840,000 or 3.9¢ per share compared with a profit of $2,389,000 or 5.1¢ per share last year. Our share of the earnings of Simpsons-Sears Limited last year included a non-recurring gain of $368,730 on the sale of property. These results do not include the income tax reduction on the allowance of 3% of inventory as outlined in the Federal spring budget. The total benefit to Simpsons, Limited of such allowance including the equity of Simpsons, Limited in the allowance to Simpsons-Sears Limited, is estimated at $3,590,000 for 1977, of which $1,545,000 is calculated as applicable to the first half of the year.

Sales, inventory and expense budgets for the fall period to year-end have been adjusted to the slower rate of business activity anticipated by leading economists for the balance of 1977.

Our twentieth store, the second in London, Ontario, opened this month and no further store openings are planned this year.

We recently raised $25,000,000 on the sale of 20-year 9-7/8% Series H Debentures of Simpsons Acceptance Company Limited and it is felt that no additional long term money will be needed through 1978.



Chairman of the Board
and Chief Executive Officer

August 18, 1977

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INTERIM CONSOLIDATE

Net sales	. . . . .
Rentals and other income	. . . . .
Loss from operations before income taxes	. . . . .
Recovery of income taxes	. . . . .
Loss from operations	. . . . .
Equity in net earnings of Simpsons-Sears Limited an	
Simpsons-Sears Limited (dividends received 1977 – $3,696,000, 1976 – $3,696,000)	.
Shopping centre companies (dividends receive 1977 – $212,000, 1976 – $1,450,000)	. . .
Interest attributable to investments in Simpso and other companies, net of income taxes (1977 – $1,300,000, 1976 – $1,352,000)	.
Net earnings (loss)	. . . . .
Net earnings (loss) per share	. . . . .

CONSOLIDATED STATEMENT O

SOURCES OF WORKING CAPITAL:	
Net earnings (loss)	. . . . .
Non-cash charges deducted in arriving at earnings, p depreciation and write-off on departmental in	
Dividends received in excess of equity in net earnin Limited and shopping centre companies.	. . .
Gain on retirement of long term debt	. . . . .
Funds provided from operations.	. . . . .
Decrease in investments and advances	. . . . .
Decrease in non-current accounts receivable	. . . . .
Common shares issued under Employees' Stock Op	
Decrease in loans to a Trustee under Employees' St	
Disposal of fixed assets	. . . . .
APPLICATIONS OF WORKING CAPITAL:	
Additions to fixed assets	. . . . .
Expenditures on departmental improvements	. . .
Additions to investments and advances	. . . . .
Retirement of long term debt	. . . . .
Dividends on common shares	. . . . .
Resulting in a decrease in working capital of	. . . .
Working capital at end of period	. . . . .

*Reclassified to conform with presentation for the six mon

Subject to year-end audit and adjustments

ATEMENT OF EARNINGS

Six months ended

	July 6, 1977	*July 7, 1976*
.....	$275,866,000	$257,766,000
.....	2,024,000	2,009,000
.....	4,429,000	717,000
.....	2,183,000	553,000
.....	2,246,000	164,000
er companies:		
.....	1,274,000	3,350,000
.....	530,000	550,000
rs Limited		
.....	(1,398,000)	(1,347,000)
	406,000	2,553,000
.....	$ (1,840,000)	$ 2,389,000
.....	(3.9 cents)	5.1 cents

ANGES IN FINANCIAL POSITION

Six months ended

	July 6, 1977	*July, 7, 1976**
.....	$ (1,840,000)	$ 2,389,000
ally		
ements	5,290,000	4,969,000
Simpsons-Sears		
.....	2,104,000	1,246,000
.....	(112,000)	(354,000)
.....	5,442,000	8,250,000
.....	2,179,000	8,000
.....	327,000	693,000
lans	1,000	3,000
urchase Plan ..	—	4,000
.....	70,000	77,000
	8,019,000	9,035,000
.....	1,441,000	2,276,000
.....	1,957,000	1,927,000
.....	2,540,000	243,000
.....	2,824,000	1,502,000
.....	5,166,000	5,166,000
	13,928,000	11,114,000
.....	5,909,000	2,079,000
.....	$141,736,000	$140,944,000

ed July 6, 1977

TO THE SHAREHOLDERS:

Sales for the six months ended July 6, 1977 were $275,866,000, an increase of 7% over the same period last year. The results for the second quarter were more disappointing than anticipated. The economic recession progressively eroded the real disposable income of consumers while unpredictable weather in late May and early June combined to produce country-wide the most unsatisfactory results for these months in recent years. Sales in the Ontario region and Halifax have been somewhat stronger than in other areas. Earnings in the second quarter showed a gain of $266,000 or 0.6¢ per share compared with $3,791,000 or 8.1¢ per share last year.

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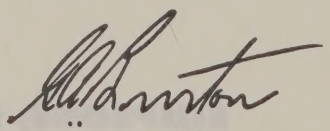

Chairman of the Board
and Chief Executive Officer

August 18, 1977

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DIRECTORS

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J. Michael G. Scott	Ian D. Sinclair, Q.C., LL.D.
Charles B. Stewart	James M. Tory, Q.C.
William P. Wilder	A. Ernest Wilkes

OFFICERS

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Chairman of the Board and Chief Executive Officer

Charles B. Stewart
Deputy Chairman of the Board

Edgar G. Burton
President

Charles L. Gundy, LL.D.
Vice-President

Ronald J. Crichton
Vice-President, Operating

J. Richard Davidson
Vice-President, Planning and Development

Kenneth W. Kernaghan, Q.C.
Vice-President and Secretary

Douglas R. Steele
Vice-President, Merchandising

A. Ernest Wilkes
Vice-President, Finance

Ian M. Gibson
Treasurer

Ronald L. Radley, Q.C.
Assistant Secretary

Highlights

	1977	1976
Net sales	**$638,695,000**	$605,297,000
Earnings from operations	**10,848,000**	10,341,000
Equity in net earnings of Simpsons-Sears Limited and shopping centre companies, net of attributable interest	**16,853,000**	11,860,000
Earnings before extraordinary item	**27,701,000**	22,201,000
Per share*	**59.0¢**	47.3¢
Net earnings**	**28,059,000**	22,201,000
Per share*	**59.7¢**	47.3¢
Dividends paid	**10,333,000**	10,333,000
Per share	**22.0¢**	22.0¢
Shareholders' equity	**295,563,000**	277,836,000
Per share	**6.29**	5.92
Contributions to employee retirement plans	**8,743,000**	7,085,000
Expenditures for fixed assets including departmental improvements	**11,021,000**	10,157,000
Provision for depreciation	**5,583,000**	5,486,000
Write-off on departmental improvements	**4,884,000**	4,456,000

*Earnings per share are based on weighted average number of shares outstanding during the year.

**Net earnings for 1977 have been increased by approximately $3,650,000 as a result of the 3% inventory allowance for income tax purposes including $2,290,000 applicable to the company's equity in Simpsons-Sears Limited.

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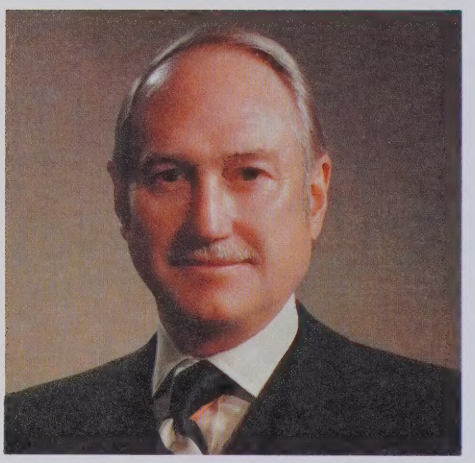
Directors' Report to the Shareholders:



G. Allan Burton, Chairman of the Board

Sales for 1977 were $638,695,000, an increase of 5.5% over 1976 sales of $605,297,000. Net earnings after taxes were $28,059,000, or 59.7¢ per share, compared with $22,201,000, or 47.3¢ per share in 1976. Dividends of 22¢ per share were paid during the year on 46,968,554 shares to over 17,000 shareholders.

On August 15, 1977, we issued $25,000,000 Simpsons Acceptance Company Limited 9⅞% Secured Debentures, Series H, due August 15, 1997. We do not anticipate the need to raise additional capital in 1978, even though capital expenditures, principally for store facilities, will be about 16 million dollars.

1977 was a year when consumer confidence was further eroded by high unemployment, continuing inflation and an unresolved political situation. The retailer was hit by a sudden softening of demand at a time when most suppliers were filling as many orders as possible as quickly as possible with the result that inventories during the year rose beyond plan. Interest rates, carrying charges and sharply competitive pricing reduced profitability, particularly in the early part of the year. However, the last six months saw sales and profits improve and much of the lost ground was recovered before the end of the year.

Most concerns wisely amended or postponed expansion plans that were not irrevocably committed. Simpsons had already started on a new store in Les Promenades St-Bruno, on the south shore of Montreal, which will open in August. Three other major retailers also will have stores in this regional centre. Until conditions improve, we have no immediate plans for new stores, but will concentrate on refurbishing and realigning existing stores, particularly in Ontario. During the year we leased and refurbished a 100,000 square foot store in the White Oaks Mall in London, Ontario, our second in London and twentieth in Canada. This venture has proven successful, and if further existing stores in good locations become available, they will be considered.

During the year we have completed a most exhaustive study of past results and are working on a plan for the next several years to ensure continued growth and an improved return on our total investment. We are completing a data base of merchandise and operating information of considerable depth which will enable us to accelerate the development of modern systems in merchandising, operating and personnel administration in which we have pioneered in the past several years. We believe the systems we have developed have no superior in North America and will be of key importance to our continuing a leading role in merchandising in Canada.

As our affiliated company Simpsons-Sears Limited, equally controlled by Simpsons, Limited and Sears, Roebuck

and Co., has completed its 25th year of growth across Canada, we are jointly studying further areas of co-operation to ensure that we achieve the maximum coverage and share of market in Canada available to us in our traditional fields. In addition, we are actively expanding various services, such as our Travel Service, through our combined country-wide system of stores and thousands of credit accounts.

While we do not expect 1978 to be a year of strong economic growth in Canada, we do expect steady progress in most areas. Quebec will drag in uncertainty until the present political situation is resolved, hopefully soon.

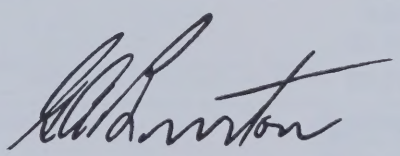
In line with our Long Range Plan, we have adopted a new internal organization and created a new position of Vice-President, Stores. Mr. R.J. Crichton, responsible for service and operations for many years, assumes that important responsibility. We have appointed Mr. J.R. Davidson, Vice-President, Personnel, with the intention of greatly expanding our expertise in recruiting, career training and personnel development. Mr. I.C. McSweeney was appointed Vice-President, Merchandising, to replace Mr. D.R. Steele, who retired after completing 45 years of notable service to the Company.

In January of this year, Mr. E.L. Rounding, retired Vice-President, Planning and Development, resigned from the Board of Directors. We are most pleased that Mr. Raymond Lavoie of Montreal consented to fill this vacancy on the Board and he will stand for re-election at the Annual Meeting.

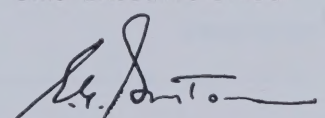
We are proud of the men and women who make up the Simpsons staff. We have over 3,000 career people with over 25 years' service, and the great majority of Simpsons employees are shareholders in the Company through the Profit Sharing and Stock Purchase plans. Last year the Company contributed over $9,300,000 to pensions and profit sharing for the benefit of our employees.

The Board of Directors would like to record their appreciation of the dedication, courtesy and expertise of the Simpsons people who, under most difficult economic conditions, served more Canadians than ever before, and gave real meaning to our slogan – "You'll enjoy Shopping at Simpsons."

On behalf of the Board



Chairman of the Board and
Chief Executive Officer



President

March 16, 1978

Edgar G. Burton, President

Consolidated Statement of Earnings

	Fiscal year ended January 4, 1978	Fiscal year ended January 5, 1977
Net sales	**$638,695,000**	$605,297,000
Rentals and other income	**4,251,000**	4,026,000
	642,946,000	609,323,000
Deduct:		
Cost of merchandise sold and selling and administrative expenses	**599,422,000**	565,705,000
Provision for depreciation	**5,583,000**	5,486,000
Write-off on departmental improvements	**4,884,000**	4,456,000
Interest expense (Note 4)	**14,871,000**	14,185,000
	624,760,000	589,832,000
Earnings from operations before income taxes	**18,186,000**	19,491,000
Provision for income taxes	**7,338,000**	9,150,000
Earnings from operations	**10,848,000**	10,341,000
Equity in net earnings of other companies:		
Simpsons-Sears Limited (dividends received 1977–$7,392,000; 1976–$7,392,000)	**18,560,000**	13,596,000
Shopping centre companies (dividends received 1977–$2,012,000; 1976–$1,450,000)	**1,058,000**	1,108,000
Interest attributable to investments in these companies, net of income taxes 1977–$2,553,000; 1976–$2,625,000 (Note 4)	**(2,765,000)**	(2,844,000)
	16,853,000	11,860,000
Earnings before extraordinary item	**27,701,000**	22,201,000
Non-recurring gain (Note 5)	**358,000**	–
Net earnings for the fiscal year (Note 9)	**$ 28,059,000**	$ 22,201,000
Earnings per share before extraordinary item	**59.0¢**	47.3¢
Net earnings per share	**59.7¢**	47.3¢

Consolidated Statement of Retained Earnings

Balance at beginning of year	**$224,449,000**	$212,092,000
Net earnings for the fiscal year	**28,059,000**	22,201,000
Increase in equity in Simpsons-Sears Limited on issue by that company of additional Class A shares (Note 3(b))	**–**	489,000
	252,508,000	234,782,000
Dividends on common shares (22¢ per share)	**10,333,000**	10,333,000
Balance at end of year	**$242,175,000**	$224,449,000

Consolidated Statement of Changes in Financial Position

	Fiscal year ended January 4, 1978	Fiscal year ended January 5, 1977
Sources of Working Capital:		
Earnings before extraordinary item	**$ 27,701,000**	$ 22,201,000
Non-cash charges deducted (added) in arriving at earnings:		
Provision for depreciation and write-off on departmental improvements	**10,467,000**	9,942,000
Deferred income taxes	**1,098,000**	(721,000)
Gain on retirement of long-term debt	**(359,000)**	(373,000)
Other	**279,000**	254,000
Equity in undistributed net earnings of Simpsons-Sears Limited and shopping centre companies	**(10,214,000)**	(5,862,000)
Working capital from operations	**28,972,000**	25,441,000
Proceeds from sale of investments	**3,866,000**	–
Decrease in other investments and advances	**165,000**	1,238,000
Decrease in non-current accounts receivable	**81,000**	719,000
Proceeds from issue of common shares (Note 8)	**1,000**	6,000
Decrease in loans to a Trustee under Employees' Stock Purchase Plan	**8,000**	7,000
Disposals of fixed assets	**93,000**	45,000
Proceeds from sale of debentures	**24,457,000**	–
	57,643,000	27,456,000
Applications of Working Capital:		
Additions to fixed assets	**5,173,000**	4,166,000
Expenditures on departmental improvements	**5,848,000**	5,991,000
Increase in other investments and advances	**2,490,000**	464,000
Retirement of long-term debt	**3,683,000**	1,880,000
Dividends on common shares	**10,333,000**	10,333,000
	27,527,000	22,834,000
Resulting in an increase in working capital of	**$ 30,116,000**	$ 4,622,000
Working capital at end of year	**$177,761,000**	$147,645,000

Consolidated Balance Sheet

Assets	January 4, 1978	January 5, 1977
Current Assets:		
Cash	**$ 2,092,000**	$ 119,000
Accounts receivable (Note 2)	**198,694,000**	178,499,000
Inventories	**90,874,000**	97,425,000
Prepaid expenses	**6,144,000**	5,367,000
	297,804,000	281,410,000
Investments and Other Assets:		
Simpsons-Sears Limited (Note 3)	**161,509,000**	150,341,000
Other investments and advances (Note 5)	**12,057,000**	14,315,000
Loans to a Trustee under Employees' Stock Purchase Plan (Note 8)	**4,044,000**	4,052,000
Accounts receivable (Note 2)	**620,000**	701,000
	178,230,000	169,409,000
Fixed Assets:		
Land and buildings	**135,183,000**	132,455,000
Equipment and fixtures	**51,210,000**	49,482,000
	186,393,000	181,937,000
Less accumulated depreciation	**60,730,000**	55,771,000
	125,663,000	126,166,000
Departmental improvements, less amounts written off	**21,788,000**	20,824,000
	147,451,000	146,990,000
Unamortized Debenture Discount and Expense	**1,809,000**	1,424,000
	$625,294,000	$599,233,000

Liabilities

	January 4, 1978	January 5, 1977
Current Liabilities:		
Demand and short-term notes (Note 6)	**$ 47,269,000**	$ 62,561,000
Accounts payable	**46,107,000**	46,833,000
Accrued wages, rent, interest, etc.	**17,741,000**	15,691,000
Customers' deposit accounts	**876,000**	909,000
Income and other taxes	**7,332,000**	7,477,000
Principal payments on long-term debt due within one year (Note 7)	**718,000**	294,000
	120,043,000	133,765,000
Long-Term Debt (Note 7)	**195,780,000**	174,822,000
Deferred Income Taxes	**13,908,000**	12,810,000
	329,731,000	321,397,000

Shareholders' Equity

Capital Stock (Note 8):		
Authorized–60,000,000 common shares without nominal or par value Issued–46,968,554 shares (January 5, 1977–46,968,239 shares)	**36,533,000**	36,532,000
Retained Earnings	**242,175,000**	224,449,000
Appraised Value of Land and Buildings in Excess of Depreciated Book Value on July 31, 1952	**16,855,000**	16,855,000
	295,563,000	277,836,000
	$625,294,000	$599,233,000

Approved by the Board of Directors:

G.A. Burton, Director
J.M. Tory, Director

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies:

Principles of consolidation–The consolidated financial statements include the accounts of Simpsons, Limited and all subsidiary companies.

Inventories–Inventories are valued at the lower of approximate cost and realizable value. Cost is determined for retail store inventories on a first-in, first-out basis applied by the retail inventory method, and for supplies and miscellaneous inventories on a first-in, first-out or average cost basis applied by individual items.

Investments–The investment in Simpsons-Sears Limited is carried at cost plus equity in undistributed net earnings. The equity method of accounting has also been applied to 25% to 50% ownership interests in shopping centre companies. Other investments are carried at the lower of cost and realizable value.

Fixed assets–Fixed assets are stated at cost except for land and buildings included at 1952 appraised values of $34,920,000. Depreciation provided on the buildings has reduced the net depreciated book value of the appraised land and buildings to $22,866,000 at January 4, 1978.

Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets. The depreciation rates are 2% for buildings and generally from 7½% to 20% for equipment and fixtures. Departmental improvements are written off over their estimated useful lives of generally 5 to 20 years.

Unamortized debenture discount and expense–Debenture discount and expense are amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective debentures.

Profits on instalment sales–Profits on instalment sales are taken into earnings at the time of sale. The service charges are taken into earnings, and included in net sales, as earned.

Income taxes–Income taxes are accounted for on the tax allocation method whereby income taxes are fully provided on reported earnings at current tax rates.

2. Accounts Receivable:

	January 4, 1978	January 5, 1977
Customer instalment accounts	**$167,506,000**	$147,384,000
Charge and other customer accounts	**34,045,000**	35,266,000
Miscellaneous accounts	**4,772,000**	3,350,000
	206,323,000	186,000,000
Less allowance for doubtful accounts	**7,009,000**	6,800,000
	199,314,000	179,200,000
Non-current accounts receivable	**620,000**	701,000
	$198,694,000	$178,499,000

In accordance with recognized trade practices, instalment accounts receivable include amounts which will not become due within one year. However, other accounts receivable not expected to be collected within one year, arising from large-scale contracts of the Contract Division, have been classified as non-current accounts receivable.

3. Simpsons-Sears Limited:

(a) The investment in Simpsons-Sears Limited, representing 40.9% of the outstanding shares of that company, is carried at cost plus equity in undistributed net earnings. Simpsons, Limited equity in net earnings of Simpsons-Sears Limited for each fiscal year is included in the earnings of Simpsons, Limited for the corresponding fiscal year. See page 15 for summarized financial information on Simpsons-Sears Limited.

(b) Simpsons, Limited and Sears, Roebuck and Co. each own an equal number of the voting shares of Simpsons-Sears Limited while the non-voting Class A shares are owned by other shareholders. The issue of additional Class A shares by Simpsons-Sears Limited at an amount per share in excess of book value increases Simpsons, Limited equity in Simpsons-Sears Limited. Effective in the fiscal year ended January 4, 1978, the increase has been included in net earnings. Previously such items were credited to retained earnings. The effect of this change has been to increase net earnings for the fiscal year ended January 4, 1978 by $186,000 (0.4¢ per share).

4. Interest Expense:

Interest expense charged to operations has been determined as follows:	Fiscal year ended **January 4, 1978**	January 5, 1977
Interest on long-term debt, including amortization of discount and expense	**$14,993,000**	$14,156,000
Other interest	**5,196,000**	5,498,000
	20,189,000	19,654,000
Less interest attributable to investments in Simpsons-Sears Limited and shopping centre companies	**5,318,000**	5,469,000
	$14,871,000	$14,185,000

The interest attributable to investments in Simpsons-Sears Limited and shopping centre companies, calculated by applying Simpsons, Limited average borrowing rate to the cost of the investments, is presented separately in the consolidated statement of earnings, net of income taxes, as a deduction from the equity in the earnings of these companies.

5. Other Investments and Advances:

	January 4, 1978	January 5, 1977
Shares in and advances to shopping centre companies	**$ 3,827,000**	$ 4,134,000
Long term prepaid rent	**3,480,000**	3,601,000
Shares in public companies	**644,000**	1,974,000
Miscellaneous	**4,106,000**	4,606,000
	$12,057,000	$14,315,000

In 1977 the investment in shares of a public company was sold and the remaining investment in another public company was written down to estimated realizable value resulting in a net gain of $358,000.

6. Demand and Short-Term Notes:

At January 5, 1977 these notes included $22,670,000 payable to banks.

7. Long-Term Debt:

	January 4, 1978	January 5, 1977
Simpsons, Limited Debentures–		
5½% Series C due September 15, 1979	**$ 63,000**	$ 76,000
5¾% Series D due February 1, 1984	**7,439,000**	8,000,000
5¾% Series E due July 15, 1985	**9,668,000**	9,996,000
6½% Series F due March 15, 1987	**8,953,000**	9,757,000
9½% Series G due December 15, 1989	**11,675,000**	12,287,000
8⅜% Series H due June 1, 1993	**23,700,000**	25,000,000
9⅛% Series I due February 15, 1994	**15,000,000**	15,000,000
11¾% Series J due November 15, 1995	**25,000,000**	25,000,000
	101,498,000	105,116,000
Less principal payments due within one year	**718,000**	294,000
	100,780,000	104,822,000
Simpsons Acceptance Company Limited Secured Debentures–		
6 % Series B due May 15, 1981	**15,000,000**	15,000,000
5½% Series C due June 15, 1982	**10,000,000**	10,000,000
5¾% Series D due April 1, 1984	**10,000,000**	10,000,000
6¾% Series E due June 15, 1986	**10,000,000**	10,000,000
8⅜% Series F due March 15, 1992	**10,000,000**	10,000,000
8⅜% Series G due December 15, 1992	**15,000,000**	15,000,000
9⅞% Series H due August 15, 1997	**25,000,000**	–
	95,000,000	70,000,000
	$195,780,000	$174,822,000

Principal payments required subsequent to January 4, 1978 for the fiscal years shown are as follows: 1978–$718,000; 1979–$7,105,000; 1980–$7,200,000; 1981–$22,450,000; 1982–$17,450,000.

The Secured Debentures of Simpsons Acceptance Company Limited are secured by an assignment of the customer instalment accounts receivable referred to in Note 2.

8. Capital Stock:

Under the terms of the Employees' Stock Option Plan 315 common shares were issued during the fiscal year ended January 4, 1978 for $1,745. The Employees' Stock Option Plan provides that the option price shall be the market price of the shares on the day immediately preceding the date of grant and that the options may not be exercised later than ten years from the date of grant.

Outstanding options at January 4, 1978 were as follows:

Date options granted	Option price per share	Officer directors and other officers	Other employees	Total
January 1969	$5.54	–	45,436	45,436
February 1971	6.21	25,800	–	25,800
		25,800	45,436	71,236

On January 19, 1973 the Board of Directors authorized a Stock Purchase Plan under which Simpsons, Limited made interest-free loans to a Trustee which in turn made interest-free loans to employees to enable them to purchase shares, and to repay loans arranged subsequent to June 1971 for the purchase of shares, under the Employees' Stock Option Plan.

9. Net Earnings:

Net earnings for the fiscal year ended January 4, 1978 have been increased by approximately $3,650,000 (7.8¢ per share) as a result of the reduction in current income taxes arising from the 3% inventory allowance for income tax purposes including $2,290,000 (4.9¢ per share) applicable to the company's equity in the allowance to Simpsons-Sears Limited.

10. Pension and Profit Sharing Plans:

Contributions by the companies to employee retirement plans, including the Canada and Quebec Pension Plans, were: 1977–$8,743,000; 1976–$7,085,000.

The unfunded obligation for past service under the contributory pension plan, estimated by independent actuaries to be approximately $40,560,000 at January 4, 1978, is being amortized by annual payments through 1991.

Under the voluntary contributory Profit Sharing Stock Purchase Plan Simpsons, Limited contributes 2½% of consolidated earnings, as defined, up to a maximum equal to the total contribution of the members. All contributions are invested in shares of Simpsons, Limited. For the year ended January 4, 1978 the company contributed $587,000 to the Plan (1976–$613,000).

Notes to Consolidated Financial Statements

11. Commitments and Contingent Liabilities:

(a) Annual rentals and other commitments under long-term leases and operating agreements amount to approximately $6,100,000.

(b) Simpsons, Limited and Hudson's Bay Company, part owners of Woodbine-Sheppard Shopping Centre Limited, have jointly and severally agreed to meet all payments of interest and principal on its $16,700,000 principal amount of bonds. Cemp Investments Ltd., the other part owner of the company, has agreed to make available 50% of all funds which Simpsons, Limited and Hudson's Bay Company may be called upon to provide under their agreements.

12. Capital Expenditures:

Capital expenditures during the fiscal year ending January 3, 1979 are estimated at $16,000,000 for the completion of construction in progress and other authorized and proposed additions to fixed assets.

13. Remuneration of Directors and Officers:

For the purposes of this note directors include past directors and officers include past officers.

For the fiscal year ended January 4, 1978 the eighteen directors received aggregate remuneration as directors of $58,000 (1976–eighteen directors, $50,000) and the eleven officers received aggregate remuneration as officers of $1,223,000 (1976–eleven officers, $1,243,000). In 1977 four of these officers (1976–six) also served as directors.

The total remuneration of directors and officers is paid by The Robert Simpson Company Limited, a subsidiary of Simpsons, Limited, and partly allocated to other operating subsidiaries.

14. Anti-Inflation Program:

The Federal Government, under the Anti-Inflation Program, has imposed restrictions on profit margins, prices, compensation and dividends. In the opinion of management Simpsons, Limited and its subsidiaries have complied with the provisions of the Legislation.

Auditors' Report:

To the Shareholders of
Simpsons, Limited:

We have examined the consolidated balance sheet of Simpsons, Limited as at January 4, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 4, 1978 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants
Toronto, March 15, 1978

The Personal Approach Benefits Customers

The objective of customer satisfaction... in fashions for every occasion, the furnishing of homes, dining, travel and a host of other services, is met by highly skilled personnel within Simpsons.

Professionalism at every level is promoted through specific in-service courses initiated by Corporate Training, and put into practice throughout the Simpsons organization.

Specialized use of modern technology speeds procedures and provides greater accuracy for improved service to customers right along the line through buying, distributing, phone orders, processing of accounts and delivering. "Magic" wands collect data at sales desks, instant printouts confirm orders and a "mastermind" with a "memory" keeps track of location and stock status.

Genuine personal concern for customer service and satisfaction combines with effective facilities on the job to make Simpsons truly Among the Great Stores of the World.

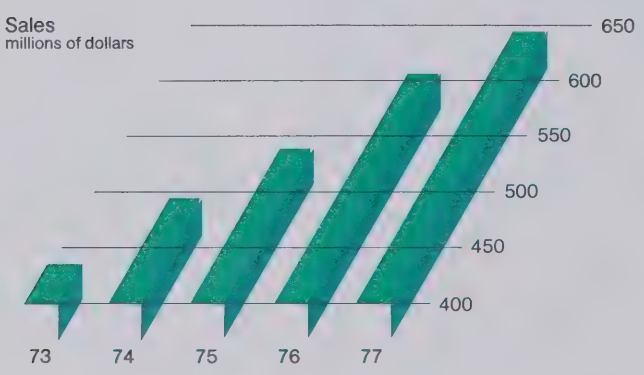
Simpsons First-person Approach to Unity: 1977 Introduced Entre Amis/Between Friends Visits

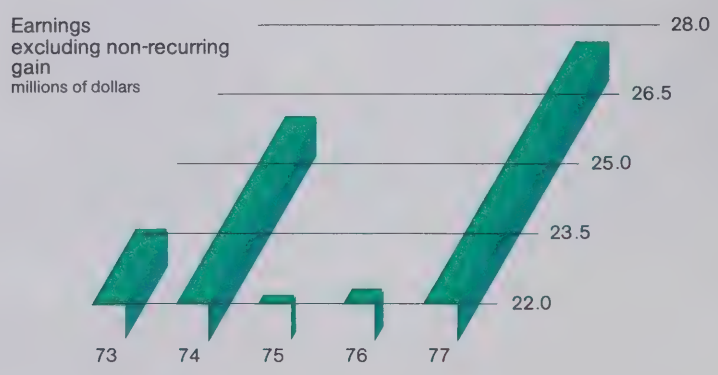
The company's project of an interchange among 60 teenage sons and daughters of Simpsons staff in Quebec and Ontario was an unqualified success. The visits included Canada Day celebrations in Toronto, a tour of historic Quebec City and other organized outings. The young people were personal guests in each others' homes. A score of other corporations requested Simpsons "blueprint" for similar programs, and Simpsons initiated steps for an even broader Entre Amis/Between Friends interchange to involve 80 staff families in all Simpsons areas in 1978.

Five Years in Review

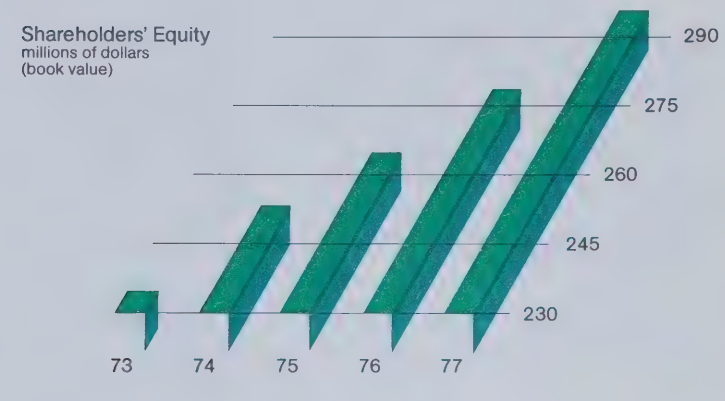
	1977	1976
Operating Results (in thousands)		
Net sales	**$638,695**	$605,297
Provision for depreciation	**5,583**	5,486
Write-off on departmental improvements	**4,884**	4,456
Interest expense	**14,871**	14,185
Income taxes	**7,338**	9,150
Earnings from operations	**10,848**	10,341
Dividends from Simpsons-Sears Limited	**7,392**	7,392
Equity in undistributed net earnings of Simpsons-Sears Limited	**11,168**	6,204
Equity in net earnings of shopping centre companies	**1,058**	1,108
Interest attributable to investments in Simpsons-Sears Limited and shopping centre companies, net of income taxes	**2,765**	2,844
Net earnings	**27,701***	22,201
Dividends paid	**10,333**	10,333
Financial Position (in thousands)		
Working capital	**177,761**	147,645
Land, buildings and equipment (after depreciation)	**125,663**	126,166
Total assets	**625,294**	599,233
Long-term debt	**195,780**	174,822
Shareholders' equity	**295,563**	277,836
Per Common Share (adjusted for stock splits)		
Net earnings per share (in cents)	**59.0***	47.3
Dividends paid per share (in cents)	**22.0**	22.0
Ratios and Statistics		
Ratio of current assets to current liabilities	**2.5-1**	2.1-1
Number of shares issued	**46,968,554**	46,968,239
Number of shareholders	**17,175**	16,104
Approximate price range per common share	**5¾-4.35**	8⅛-4.85

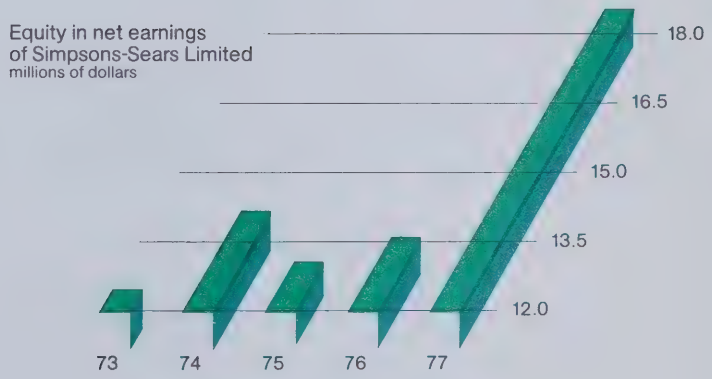
*Excluding non-recurring gain †53 weeks

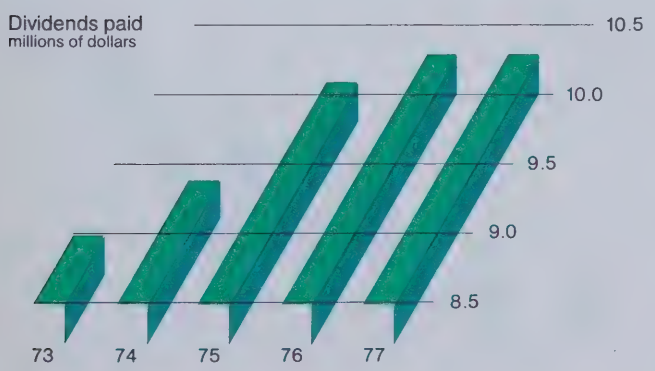


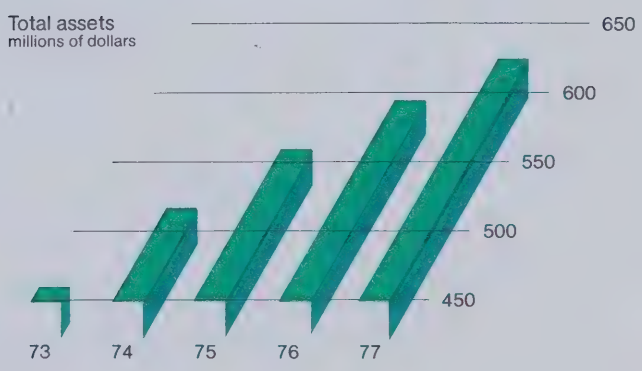


1975	1974†	1973
$547,940	$494,920	$436,044
5,176	4,550	4,075
4,078	3,689	3,253
11,957	10,595	8,416
9,891	13,442	11,815
9,999	12,461	11,846
6,748	6,020	5,034
6,463	8,207	7,511
638	927	566
1,658	1,498	1,382
22,190	26,117*	23,574
10,096	9,388	8,970
143,023	141,125	133,954
127,541	126,710	112,336
562,285	517,112	460,249
177,075	154,152	141,606
265,473	252,631	234,305
47.3	55.6*	50.5
21.5	20.0	19.2
2.3-1	2.4-1	2.8-1
46,967,288	46,942,850	46,938,619
15,255	15,344	14,546
9⅛-6½	9¼-5¼	11⅝-7½





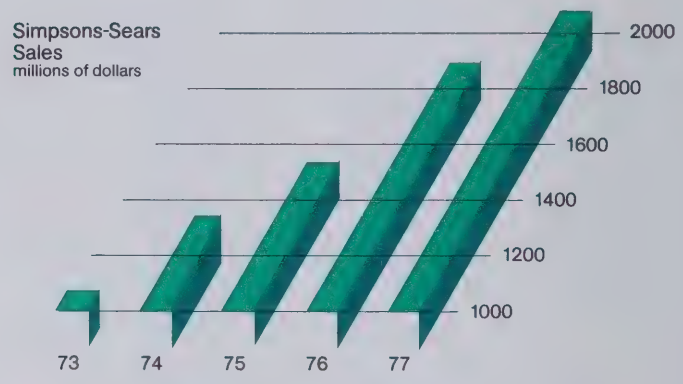


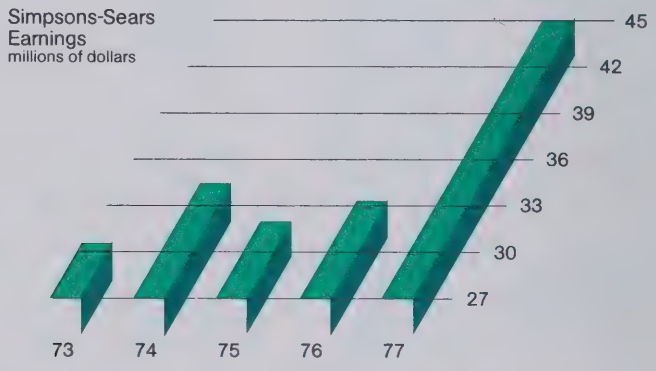


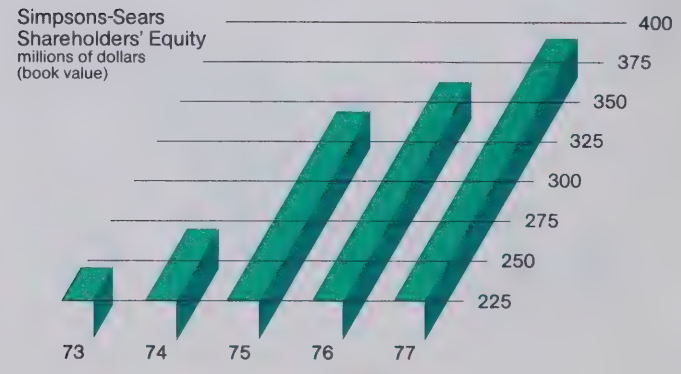
Investment in Simpsons-Sears Limited

The total amount invested by Simpsons in Simpsons-Sears since the formation of that company in 1952 amounts to $64,350,800 including the additional amount of $23,800,000 invested in the latter part of 1975. Dividends received by Simpsons during 1977 of $7,392,000 represent a return of 11.5% on that investment. To the end of 1977 Simpsons has received from Simpsons-Sears cash dividends of $58,713,000 and has an equity of $97,158,000 in its undistributed earnings for a total of $155,871,000.

The book value of Simpsons investment in Simpsons-Sears represents a value to a Simpsons shareholder of $3.44 per share.







Highlights

Operating Results for the Fiscal Year

	1977	1976
Net sales, including rentals and other income	**$2,096,273,000**	$1,894,222,000
Cost and expenses	**2,027,654,000**	1,837,168,000
Earnings before income taxes	**68,619,000**	57,054,000
Provision for income taxes*	**27,700,000**	26,906,000
Earnings from operations	**40,919,000**	30,148,000
Equity in earnings of associated companies	**4,007,000**	3,026,000
Net earnings	**$ 44,926,000**	$ 33,174,000
Per share	**60¢**	44¢
Simpsons equity in earnings	**$ 18,560,000**	$ 13,596,000
Simpsons share of dividends paid	**$ 7,392,000**	$ 7,392,000

Financial Position at Fiscal Year-End

Assets:

Current assets	**$ 973,259,000**	$ 884,496,000
Investments and other assets	**43,562,000**	43,241,000
Fixed assets, net	**323,106,000**	310,333,000
	$1,339,927,000	$1,238,070,000

Liabilities and Shareholders' Equity:

Current liabilities	**$ 415,668,000**	$ 397,823,000
Long-term debt	**512,176,000**	457,407,000
Deferred income taxes	**21,622,000**	20,243,000
	949,466,000	875,473,000
Capital stock	**185,764,000**	184,749,000
Retained earnings	**204,697,000**	177,848,000
	$1,339,927,000	$1,238,070,000

*After reduction in 1977 of approximately $5,600,000 as a result of the 3% inventory allowance.

A copy of Simpsons-Sears Limited Annual Report for 1977 may be obtained by writing to the Secretary of Simpsons, Limited.

Simpsons Biggest Investment is Simpsons-Sears, Coast to Coast

Simpsons, Limited decision to incorporate Simpsons-Sears Limited in association with Sears, Roebuck and Co., of Chicago, has resulted in a quarter century of continuing growth and expansion. The basis of Simpsons mail order business with which the new company began its operations in 1953 quickly extended through retail stores in major cities not then served by Simpsons department stores. Besides the 62 Sears retail stores now thriving in as many cities and shopping plazas, the Simpsons-Sears complex includes more than 800 catalogue sales offices throughout Canada.

Shared expertise, purchasing strength and a mutual emphasis on customer service have made the Simpsons, Simpsons-Sears affiliation paramount for the shopping public in Canada. The availability of Simpsons Travel Service, access to Simpsons store merchandise and services, telephone order and delivery, acceptance of both companies' customer accounts in all outlets, the leadership of such renowned brand names as 'Kenmore' ... all are representative of the common ground that has been gained as the 25th Anniversary of Simpsons-Sears is celebrated.

Simpsons Department Stores (21)

Toronto Region

Downtown
Yorkdale Shopping Centre
Cedarbrae Plaza
Fairview Mall
Sherway Gardens
Shoppers' World – Brampton
Scarborough Town Centre
Hillcrest Mall – Richmond Hill

Montreal Region

Downtown
Fairview-Pointe Claire Shopping Centre
Les Galeries d'Anjou
Le Carrefour Laval
Les Promenades St-Bruno,
Opening August, 1978

Halifax Area

Mumford and Chebucto Roads
Micmac Mall–Dartmouth

London Area

Downtown
White Oaks Mall

Regina

Downtown

Ottawa

Downtown

Windsor

Devonshire Mall

Kitchener

Fairview Park Mall

Simpsons Contract Division Offices
(13) are located in Vancouver,
Calgary, Edmonton, Regina, Saskatoon,
Winnipeg, Sudbury, London, Toronto,
Ottawa, Montreal,
Fredericton and Halifax.

Simpsons

105 years of serving Canadians